Testimony before the House Committee on Transportation and Infrastructure

Hearing on Investment in Transportation Infrastructure

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Introduction

Chairman Oberstar, Ranking Member Mica and members of the Committee: good morning, and thank you for the opportunity to appear before you today. My name is Mark Florian. I am a Managing Director at Goldman Sachs, and head of its Infrastructure Banking group. I have been at Goldman Sachs for 23 years and have been involved in the financing of Infrastructure development for my entire career. I am also a member of the National Surface Transportation Infrastructure Financing Commission, working at Congress' behest to suggest solutions to our infrastructure issues. It is from this perspective that I am pleased to be able to share with you my thoughts on how to finance and improve our nation's transportation system.

The Problem

The nation's transportation system is in a crisis because current funding sources and financing tools are insufficient to maintain and improve this country's highways, public transportation systems, and intermodal connectors. As this Committee knows, the continued availability of abundant and efficient transportation infrastructure is critical to the economic growth and prosperity of our economy, and to the quality of life of individual Americans. I believe that this problem can be expressed in several key observations:

- Demands on our transportation system are outpacing investment in it.
  - For example, Vehicle Miles Traveled (or "VMTs") on U.S. highways have doubled in the last 25 years, but capacity on our highway system is up only 3 percent
- Maintenance costs of existing transportation assets are competing for the same funds needed to expand our transportation system. Many states do not have sufficient funds to maintain their roads, much less add needed capacity
- Construction inflation has accelerated, up 40% cumulatively in the last 3 years; the cost of asphalt alone is up 25-30% <u>this year</u>

- The fuel tax, administered through the Highway Trust Fund (the “HTF”), has served our country well since 1956. Nevertheless, this source of funds is no longer sufficient to meet the large and growing needs for transportation Infrastructure development in the United States

<u>The Solution</u>

While there is no “silver bullet” to our nation’s transportation crisis, there are a number of deliberate and actionable steps that we can take in order to help address the problems highlighted above:

- **More Funding**:
  - Transportation development in the U.S. is currently funded through a number of sources, but the primary source of funds has to date been the Federal fuel tax.
  - We must look to alternative sources of funding. One of the more promising solutions is to explore a greater use of direct user charges (such as a “vehicle miles traveled” or other user charge), while balancing the need to assure accessible, affordable and timely transportation alternatives for those who have little control over when they have to report to work or fulfill other responsibilities
- **More Innovative Financing Techniques**:
  - While it is important that we increase the ongoing funding streams, we also need new and innovative ways to borrow against these funding streams to create upfront capital to invest in infrastructure
  - We have at our disposal many tools (some traditional, others new and exciting alternatives) to turn ongoing funds into upfront dollars

Having outlined the Funding and Financing opportunities available to our Nation, I would now like to spend a few minutes discussing each of these topics in more detail

<u>Funding</u>

- **Federal Gas Tax**
  - While an increase in the federal fuel tax could help address the investment shortfall in short term, the political will and public acceptance required for even modest increases may be challenging
  - That said, one alternative we might consider is to “index” the gas tax to some agreed-upon measure. The “real” purchasing power of gas tax funding has significantly eroded, due to inflation over the past several decades
  - Even with the periodic increases in the gas tax over the last 50 years, simple inflation as measured by the Consumer Price Index (CPI) would have

increased the tax to $2.94 per gallon today. Moreover, due to the fact that the cost of new projects (as measured by the cost of labor and construction materials) has also recently accelerated even more quickly than the CPI, indexation to some measure such as the CPI or perhaps a “Construction Cost” index should be seriously considered

- Most importantly, however, I believe it is imprudent to rely primarily on a funding source that is tied principally to fuel consumption, given the reality of Americans reducing their consumption of gas with more efficient cars, or cars that don’t even use gas at all in the coming years

- **User Fees**
  - One of the most promising solutions for the funding shortfall is to explore a greater use of direct user charges, like tolls
  - One of the problems with the current set of funding mechanisms is that they are not perceived to be closely linked to direct use of the transportation system, allowing demand and costs for a given asset to grow faster than the revenue that funds it
  - One way to address this disconnect is to implement VMT (or Vehicle Miles Traveled) –based revenue streams. That is, user fees for a given transportation system can be directly linked to the traffic on that asset
  - Another way to address the funding shortfall is through greater use of tolling mechanisms. As long as there are viable alternatives to tolled routes, having users pay for the use of a facility makes sense. In particularly congested areas, tolls can be used to incent us to clear congestion and utilize other alternatives such as mass transit. There are many forms of tolling, and frankly we need more to fill our funding gap. However, there must be viable transportation alternatives available for those unable to regularly afford these variable pricing systems

Financing

- Closing the Infrastructure deficit in our country cannot be achieved by one financing mechanism alone, but will require tapping *all* sources of capital: tax-exempt debt, federal government funding tools, *and* private sector funds
- **Tax-Exempt Markets**
  - Tax-exempt Municipal Bonds are the traditional mechanism for financing investment in U.S. surface transportation infrastructure

    - Tax-exempt bonds have typically created a very low cost of capital for borrowers, enabling state and local governments to finance infrastructure development under attractive terms
    - The U.S. Municipal Bond market demonstrates significant size and depth, with annual issuance of $350-400 billion
- **The Role of the Federal Government**
    - PABs
        - The US tax code encourages non-governmental entities to invest in capital facilities designed to advance or improve a public purpose by providing the opportunity to finance the cost of the asset with low cost tax-exempt debt
        - As a result of this Committee's efforts in SAFETEA-LU, PABs can now be used to finance Roads and Highways. They have been employed in recent projects such as the Port of Miami Tunnel, the Capital Beltway, and the Missouri Bridge Safe & Sound program
        - PABs are a critically important financing tool, and they are one that should be preserved and greatly expanded in future years
    - TIFIA
        - TIFIA, or the Transportation Infrastructure Finance and Innovation Act of 1998, provides a new source of project financing to eligible projects. Under the provisions of TIFIA, the U.S. DOT can provide direct loans, credit enhancement or lines of credit
        - Also as a result of enhancements that this Committee made in SAFETEA-LU, the TIFIA program has provided several billion dollars of financing to important projects, including the Capital Beltway, the Washington Metro, the Staten Island Ferries, Miami Intermodal Center and the New York Penn Station renovation
        - The TIFIA program should be expanded and streamlined to reflect the high interest in and usefulness of this mechanism
    - National Infrastructure Bank
        - The proposed National Infrastructure Bank (NIB) has the potential to be another tool in financing the development of additional surface transportation Infrastructure. While this is an exciting proposal, I believe that it will only be effective if we are able to early and accurately identify

what we *specifically* intend to accomplish with this tool. We have the deepest capital markets in the world in the U.S. We do not need another way to lend money for projects, yet a NIB can provide one of three types of subsidy to get projects done better, faster, and cheaper

- First, the NIB could provide an interest cost subsidy; tax-exempt bonds provide one today, so to be a competitive source of capital the NIB's interest cost would need to be similar or lower
- Second, the NIB could provide a credit subsidy, essentially lending to higher risk projects, much like TIFIA does today or even more aggressively
- Third, the NIB could provide a project cost subsidy, with grants or early stage development monies

▪ With one or all of these approaches, we can create an attractive financing tool through the NIB

▪ It is important to keep in mind, however, that while infrastructure banks can be an important part of the infrastructure solution, they are not **the** solution to our investment infrastructure deficit; we need more revenue as part of the solution as well

▪ Finally, let me address the size of the NIB. As we know, it has been suggested that it could provide as much as $60 billion financing. While this is a lot of money, we have heard that our infrastructure gap is many multiples of this amount. The Tappan Zee Bridge replacement project in New York is estimated at $8-12 billion alone. If we want a comprehensive solution to our infrastructure issues, we need a broad range of funding and financing tools

▪ **The Role of Private Investors**

o PPP Overview

▪ As you know, although new in the United States, Public Private Partnerships are the financing structure of choice in other developed markets, such as Europe and Asia

▪ More capital (debt and equity) can be raised for a project, creating greater up-front proceeds and savings to local governments

▪ Operating risk is also shifted to private investors and operators

        - PPPs are codified by Concession Agreements (A legal document that evidences a long-term lease of a public asset by a private operator)
    - PPP Opportunities
        - These transactions serve to both fund, finance, and execute on the construction and maintenance of our infrastructure
        - We should encourage the use of these structures, particularly since our own U.S. pension plans are looking to invest in infrastructure
    - U.S. Pension Funds
        - Billions of dollars of U.S. pension plan capital have been dedicated to investment in Infrastructure
        - These investors include major commitments from U.S. public pension funds, such as CalPERS (up to $13 billion to infrastructure and commodities), Texas Teachers ($2.5 billion), CalSTERS ($1 billion), and the Illinois State Board ($500 million +). With several billion dollars dedicated to Infrastructure investment, these funds hope to take leadership roles in future transactions as "direct" investors

<u>Next Steps: What do we do from Here?</u>

As we look to improve the quality of our nation's transportation infrastructure, there are several key objectives that we ought to keep in mind. We need to rigorously consider the following:

- **Faster Delivery of Projects**
- **Better Choices for Users**
- **More Revenue Available**
- **Broad Range of Financing Alternatives**

I have obviously only dwelled on the last two; while financing structures, including the NIB, are very important, the biggest issue we need to face is creating more revenue (or funding) for infrastructure. Without more revenue, we will have a lack of funding against which to raise capital. While the Committee's focus on financing alternatives is appropriate, I urge you to continue your consideration of the additional revenue sources necessary to fund the Nation's need in the future.